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Arizona Corporation Commission
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MAY 19 2009

The Honorable Paul Newman
Commissioner
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

DOCKETED BY

Re: Arizona Public Service Company – Docket No. E-01345A-08-0172 – Letters dated April 23, 24, and 29, 2009 Discussing 1,000 Foot Free Line Extension Policy

Dear Commissioner Newman:

By way of introducing Staff's responses, Staff offers the following background information.

Although the questions that have been posed focus primarily on the elimination of the 1,000 foot free line extension policy that was previously part of APS' Schedule 3, Staff notes that Schedule 3 contained other related provisions that were terminated concurrently with the elimination of the free footage policy. For residential customers, the 1,000 foot free policy might not apply in all circumstances for instance. If the extension cost was over \$25,000, even if the distance involved was less than 1,000 feet, the new customer would undergo an economic feasibility analysis and advance the difference in costs. Further, the fixed 1,000 foot free extension provision of Schedule 3 did not extend to developers. In order to deal with the costs of extending service to developers, Schedule 3 instead set out an economic feasibility analysis to determine how much of the extension would be free.

Under the economic feasibility analysis, a developer desiring an extension of new service would submit a request for a line extension. On receipt of the request, APS would then evaluate whether the anticipated revenues from the developer could cover the costs of the extension of service. If it was economically feasible, APS would extend the service at no cost to the developer, potentially to a point beyond 1,000 feet. However, if the analysis proved that the extension would not be economical to APS, then the developer would be responsible for providing the amount necessary to make up the difference between the cost determined to be economically feasible. Consequently, for an economically unfeasible extension of service, a developer might receive much less than 1,000 feet free.

Additionally, it was typical for developers to fund the cost difference with advances in aid of construction. Consequently, under the economic feasibility analysis there was a means for the developer to ultimately see a refund of a portion, if not all, of the cost of extending service.

Thus, to get a complete perspective of the issue, the 1,000 foot free allowance should be considered in conjunction with the other related provisions that were also eliminated.

1. What cost would consumers incur if the Commission were to limit the free footage extension to 500 feet instead of the 1,000 feet?

All other things being equal, the impact on customer rates in a subsequent APS rate case would most likely be lower if a 500 foot rather than a 1,000 foot free-footage allowance was instituted, because APS' investment in the line extensions would be lower. The actual cost (impact on rates) would depend on the number of extensions in any given year. Cumulatively, the cost for these extensions out to 1,000 feet, when the free footage policy is initially borne by the utility. At the next rate case, the utility then has an opportunity to apply for recovery of the costs it paid to extend service. The utility's investment, if prudent and reasonable, is recognized in rate base and earns a return. The utility also records depreciation expense on such investment. The return on rate base and the depreciation are recognized in the context of a test year and affect rates prospectively. If the free footage were reinstated at the previous 1,000 feet, or some other level, APS (rather than the customer seeking the line extension) would be financing the amount of investment covered by the free-footage allowance. The actual costs of the line extensions to be financed by APS would not be borne by ratepayers until the conclusion of APS' next rate case.

2. How many requests for free footage did APS receive over the last five years, by year?

It is Staff's understanding that APS does not track the number of requests for free footage, but does track work orders for line extensions that were made that would have fallen under the 1000-foot "free footage" provision that had previously been in effect. In response to a Staff informal data request, APS has provided the following information concerning the number of such work orders in each year:

Year	No. of Work Orders for Extensions Under 1000 Feet
2005	1,300
2006	1,783
2007	1,374
2008	419
Total	4,876

3. How many of the requests came from out of state landowners?

APS has advised Staff that APS does not track requests by state of residence. Staff does not have this information.

4. How many of the requests were from developers as opposed to homeowners?

APS has advised Staff that the free footage provision was not available to developers, consequently; there have been none.

The Staff hopes that this information is responsive to your letter.

Sincerely,

A handwritten signature in black ink, appearing to read 'EGJ', with a long horizontal flourish extending to the right.

Ernest G. Johnson
Director, Utilities Division

EGJ:red

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